

*Southside  
Community Facilities District No. 1*

*Annual Financial Report*



*For Fiscal Year Ended  
June 30, 2011*

**Southside Community Facilities District No. 1  
For the Fiscal Year Ended June 30, 2011**

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HEINFELD, MEECH & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southside Community Facilities District No.1  
Town of Prescott Valley, Arizona

We have audited the accompanying financial statements of the governmental activities and the major fund of the Southside Community Facilities District No. 1 (the "District"), a component unit of the Town of Prescott Valley, Arizona, as of and for the year ended June 30, 2011, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Districts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Southside Community Facilities District No. 1 are intended to present the fund balances and the changes in fund balances that are attributable to the District, a component unit of the Town of Prescott Valley, Arizona. They do not purport to, and do not represent fairly the financial position of the Town of Prescott Valley, Arizona, as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
Certified Public Accountants

November 9, 2011

## **Basic Financial Statements**

# Southside Community Facilities District No. 1

## Statement of Net Assets

June 30, 2011

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Restricted cash and cash equivalents:	
Cash and cash equivalents	\$ 316,259
Total restricted cash and cash equivalents	<u>316,259</u>
Noncurrent assets:	
Deferred charges	<u>357,276</u>
Total noncurrent assets	<u>357,276</u>
Total assets	<u>673,535</u>
<b>LIABILITIES</b>	
Liabilities payable from restricted assets:	
Accounts payable	34
Bonds, loans, capital leases and other payables-due within one year	<u>60,000</u>
Total liabilities payable from restricted assets	<u>60,034</u>
Noncurrent liabilities:	
Bonds, loans, capital leases and other payables-due in more than one year	<u>2,652,000</u>
Total noncurrent liabilities	<u>2,652,000</u>
Total liabilities	<u>2,712,034</u>
<b>NET ASSETS</b>	
Unrestricted	(2,038,499)
Total net assets	<u>\$ (2,038,499)</u>

The notes to the financial statements are an integral part of this statement.

# Southside Community Facilities District No. 1

## Statement of Activities

For the Year Ended June 30, 2011

Function/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Community Facility District					
Administration	\$ 7	\$ -	\$ -	\$ -	\$ (7)
Interest and fiscal charges	221,313	-	-	-	(221,313)
Total district activities	221,320	-	-	-	(221,320)
Total primary government	\$ 221,320	\$ -	\$ -	\$ -	(221,320)

### General revenues:

Property owner assessments	195,039
Interest and investment income	22
Total general revenues	<u>195,061</u>
Change in net assets	(26,259)
Net assets - beginning	<u>(2,012,240)</u>
Net assets - ending	<u>\$ (2,038,499)</u>

The notes to the financial statements are an integral part of this statement.

# Southside Community Facilities District No. 1

## Balance Sheet

June 30, 2011

### ASSETS

Restricted assets - cash and cash equivalents	\$ 316,259
Total assets	<u>\$ 316,259</u>

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts payable	\$ 34
Total liabilities	<u>34</u>

#### Fund balance

Restricted	<u>316,225</u>
Total fund balance	316,225

Amounts reported for governmental activities in the statement of net assets are different because:

Bond issuance costs are recognized as debt service expenditures in the governmental funds; however, these costs are capitalized on the statement of net assets and amortized in the statement of activities. 357,276

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (2,712,000)

Net assets of governmental activities - statement of net assets \$ (2,038,499)

The notes to the financial statements are an integral part of this statement.



# Southside Community Facilities District No. 1

## Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended June 30, 2011

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<b>REVENUES</b>	
Assessment payments	\$ 195,039
Interest	22
Total revenues	<u>195,061</u>
<b>EXPENDITURES</b>	
Administrative charges	7
Debt service:	
Principal payment	258,000
Interest and fiscal charges	<u>204,696</u>
Total expenditures	<u>462,703</u>
Excess of revenues over (under) expenditures:	<u>(267,642)</u>
Fund balance, beginning of year	<u>583,867</u>
Fund balance, end of year	<u>\$ 316,225</u>

The notes to the financial statements are an integral part of this statement.

# Southside Community Facilities District No. 1

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2011

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Net change in fund balances - Governmental Fund Type	\$ (267,642)
Amounts reported for governmental activities in the statement of activities are different because:	
Bond issuance costs are recognized as debt service expenditures in the governmental funds; however, these costs are capitalized on the statement of net assets and amortized in the statement of activities.	(16,617)
Issuance and repayment of long-term debt is a revenue and expenditure in the governmental funds, but the issuance and repayment reduces long-term liabilities in the statements of net assets. In the current period, these amounts are	
Principal payments on debt	258,000
Changes in net assets of governmental activities	<u>\$ (26,259)</u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Southside Community Facilities District No. 1 (District) was created by the Town of Prescott Valley as a special purpose community facilities district pursuant to state law on June 29, 2006. The purpose of the District is to assist in financing necessary on and off-site infrastructure and public improvements. The developers initially build the infrastructure and are reimbursed from the District bonds. At the completion of the project the infrastructure is donated to the Town by the District.

The Town council serves as the District's board of directors. In accordance with Governmental Accounting Standards Board (GASB) "*Statement 39 – Determining Whether Certain Organizations are Component Units,*" the District financial statements are reported in the Town's financial statements for the year ended June 30, 2011, using the blended method.

The financial statements of the District conform to generally accepted accounting principles as applicable to governmental units. The District applies all relevant GASB pronouncements.

During the year ended June 30, 2011, the District implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements for fund balance classifications of governmental funds, and clarifies existing governmental fund type definitions.

**B. Basis of Presentation**

**Fund Accounting**

The accounts of the District are organized and operated on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The District operates only one fund, a general fund, the operations of which are accounted for by providing a separate set of self-balancing accounts that is comprised of the fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The minimum number of funds is maintained consistent with legal and managerial requirements.

**General Fund**

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (e.g. the *statement of net assets* and the *statement of changes in net assets*) report information on the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

Southside Community Facilities District No. 1

The *statement of activities* demonstrates the degree to which the direct expenses for a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property assessments, where applicable, are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

This means that only current assets and liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

**D. Budgets and Budgetary Accounting**

The District is not required to adopt an annual appropriated budget but does, however, adopt a budget for management purposes. Therefore, no budgetary comparison is required.

**E. Assets, Liabilities and Fund Equity**

**Cash and Cash Equivalents**

Arizona statutes require that public deposits of more than \$100,000 meet several specific requirements. Deposits of less than \$100,000 are subject only to local ordinance or resolution. Generally, the state statutes allow investments in certain certificates of deposit, interest bearing savings accounts in qualified banks and savings and loan institutions, repurchase agreements with maximum maturity of thirty days, and pooled investment funds established by the State Treasurer. Other investments include obligations of the U.S. Treasury, U.S. Government agencies, bankers’ acceptances and mutual funds.

The District records bond trust activity and maintains a bank checking account.

**Restricted Assets**

District bond assets as well as certain resources set aside for bond repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Property and Equipment and Long-Term Liabilities**

The District has no capital assets. All capital assets acquired by the District are donated to the Town. The Town is responsible for maintaining the improvements.

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Accumulated Compensated Absences**

No liability for accumulated compensated absences existed at June 30, 2011.

**Fund Equity**

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**II. CASH AND CASH EQUIVALENTS**

**A. Cash and Cash Equivalents**

The District maintains a bank checking account. In addition, the bank trust fund represents proceeds from bond sales and certain resources set aside for their repayment. Under the terms of the bond indenture, the proceeds are required to be held by a trustee. Funds on deposit are invested by the trustee in money market funds, as governed by state statute.

**Deposits**

At June 30, 2011, the carrying amount of the District's deposits was \$316,259 which is comprised of the bank checking account balance of \$0 and deposits with trustee of \$316,259. The bank balance was \$118,901. The \$118,901 difference represents outstanding checks and other reconciling items.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. As of June 30, 2011, the District's deposits were covered by federal depository insurance or by the collateral held by the District's agent or pledging financial institution's trust department or agent in the name of the District, and thus had no deposits that were exposed to custodial credit risk.

**Interest Rate Risk**

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District limits its investment portfolio to maturities of less than three years, unless matched to a specific cash flow.

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**Credit Risk**

The District invests in obligations of the U.S. Treasury, U.S. Government agencies, Certificates of Deposit, bankers' acceptances, repurchase agreements and mutual funds consisting of the foregoing as a means of limiting its credit risk.

The District's investment in the bonds of U.S. agencies was rated AA+ by Standard & Poor's, AAA by Fitch Ratings and Aaa by Moody's Investors Service.

**III. DEBT**

The District has the following long-term obligations:

\$3,025,000 Southside Community Facilities District No. 1 Special Assessment Revenue Bonds, Series 2008 is due in annual payments of \$55,000 to \$245,000 through July 1, 2032, with interest at 6.125-7.250% per annum. (Payable from revenues generated from an assessment levied against the properties located within the boundaries of the District.)

Special Assessment Revenue Bonds are secured by a lien on property within the District for which the full assessment has not initially been paid in cash. In the event of default by any of those property owners, the District may force an auction sale of the property to satisfy debt service requirements.

Changes in Long-Term Liabilities:

	<u>Balance</u> <u>6/30/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2011</u>	<u>Due Within</u> <u>One Year</u>
Southside (Series 2008)	\$ 2,970,000	\$ -	\$ 258,000	\$ 2,712,000	\$ 60,000

Debt Service requirements to maturity are as follows:

Fiscal Year Ending	Principal	Interest
2012	\$ 60,000	\$ 186,354
2013	60,000	182,679
2014	65,000	178,851
2015	70,000	174,716
2016	75,000	170,275
2017-21	447,000	773,864
2022-26	613,000	595,946
2027-31	878,000	328,642
2032-33	444,000	32,697
	\$ 2,712,000	\$ 2,624,024

**IV. CONTINGENT LIABILITIES**

At this time there are no contingent liabilities.

**V. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters for which it carries commercial insurance. The District also carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance.

**VI. DEBT SERVICE RESERVE**

One or more parcel owners have recently indicated that they would not be making one or more annual assessment payments. As a result, on July 13, 2010 a notice was filed to the bond market that an unscheduled draw had been made on the debt service reserve in the amount of \$33,515 in order to make the July 1, 2010 bond payment. This reduced the reserve to \$216,330 (the reserve requirement being \$249,845). On December 14, 2010, the District notified the bond trustee that assessment collections will again be short and an unscheduled draw of \$18,443 was necessary to make the January 1, 2011 payment further reducing the reserve to \$197,887. Another unscheduled draw of \$35,727 was necessary to make the July 1, 2011 payment, reducing the reserve to \$162,162. On March 28, 2011 and April 4, 2011 assessment auctions were held in an attempt to avoid future unscheduled draws on the reserve.